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Sovereign Wealth Fund Development in Indonesia: Lessons Learned from Norway and Singapore

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Abstract

This study aimed to compare Sovereign Wealth Funds in Singapore, Norway, and Indonesia based on several categories: classification and objectives, nature, source of funds, management, implementation, funding policy, and regulatory framework. This study adopts the grounded theory approach for analysing and categorising the data. Earlier studies on SWF have been focused on the governance and operation of the SWF globally, with minimal attention paid to SWF in developing economies. The study shows that the Indonesia Investment Authority (INA), as a newly established SWF, encountered several issues related to applying good corporate governance. Therefore, comparing the more established SWF in Singapore and Norway is significant in gaining valuable insight into INA's future. This circumstance is aimed at preserving the government's trust by adding positive value to INA's business management and ensuring sustainability. The result assures potential investors that INA's legal basis is valid and enforceable. Furthermore, an expanded INA governance framework is proposed as a practical contribution based on the results of other SWFs in Norway and Singapore. This framework is adjusted to suit INA's context and main objectives, including funding policy, supervisory institution, and transparency and accountability of the investment activities.

I. Introduction

Enhancing the state's governance and administration in the contemporary global economic climate is crucial to improving social welfare and economic growth. A Sovereign Wealth Fund (SWF) could promote efficiency and equity by investing in the world stock market and allocating gains to social dividends (Corneo, 2022). Understanding the development of SWF within the scope of the current global financial developments was important. This circumstance was due to the rapid transformation of the world economy, particularly concerning the distribution of a state's national reserves, which were the core funding source for SWF (Aguilera et al., 2016).

The world's largest SWF, known as the Government Pension Fund Global (GPFG), is currently owned by Norway. This SWF was established in 1990 after the country discovered oil in the North Sea (Visual Capitalist, 2021). The revenue generated from this sector was used to safeguard the future of the national economy by financing public pension expenditures and supporting long-term considerations in the spending of government petroleum revenues (Norwegian Government Security and Service Organization, 2022). Unlike other SWFs, the Global Pension Fund Norway (GPFN) is another scheme focusing on regional investment using funds from surpluses from the national insurance plan between 1967 and the late 1970s.

In addition to Norway's SWF, GIC Private Limited (GIC) and Temasek Holdings Limited (Temasek) in Singapore were probably the most profitable and active in recent years, and both organisations fully managed foreign exchange reserves (CNBC, 2022). Temasek focused on supporting the deep-tech innovation sector in Singapore to help the country become a global hub for life sciences, food-tech, and advanced manufacturing. On the other hand, GIC was mandated to invest overseas only (Global SWF, 2021) and was declared the most active investor in 2020 despite the unprecedented turmoil of global economic conditions (Nikkei Asia, 2020). In the case of Temasek, GIC occupied the 4th rank of the Global SWF 2022 leaderboard with a score of 96 out of 100 assessed from several indicators, namely investment accountability, responsibility, transparency, legitimacy, and sustainability (The Business Times, 2022).

Indonesia's SWF differs from Norway's and Singapore's inward-looking approach, focusing on government co-investment with private investors in Indonesia-based projects (Habir, 2021). The idea of SWF was established in 2007 through the Government Innovation Center but was eventually liquidated in 2015 because of the limited amount of Indonesia's reserves (Febriyanta, 2021). To preserve SWF, the Indonesian government issued an Omnibus Law, Law Number 11 of 2020, concerning Job Creation (Law on Job Creation). It was the basis of establishing the Indonesia Investment Authority (INA) to manage SWF, as Article 165 –172 stipulated. Despite the quite recent establishment, INA already possessed huge responsibilities. The INA focused on attracting external funds for domestic infrastructure projects. Therefore, the future of investments in Indonesia depends on its good operations and reputation.

Previous studies on SWF examined objectives, characteristics, benefits, drawbacks, and developments (Bahoo et al., 2020; Clarke, 2016; Eldredge, 2019), SWF as key drivers in international entrepreneurial economy (Bostan, 2017), the shortcomings of SWF, such as lack of proper management and integration with the country's fiscal policy and poor transparency (Bahgat, 2010), as well as SWF as a politically biased scheme (Kirshner, 2009). Furthermore, other studies examined the benefits of SWF, such as government participation in the global economic policy being more salient through SWF (Bahoo et al., 2020; Bostan, 2017) and the long-term impact of SWF investments (Park et al., 2019). Another study examined SWF as an entrepreneurial economy driver that stabilised the effect on the growth and liquidity of financial markets and reduced the risk of a financial crisis (Bahoo et al., 2020; Keller & Vanoli, 2012; Park et al., 2019). A study conducted by (Affuso et al., 2022) outlines the impact on economic growth using the demand–aggregate supply and the Harrod–Domar growth models. Additionally, a previous study discussed the development of SWF in a particular country and compared one SWF to another (Adeakin, 2018).

Based on the background, this study is significantly relevant. It may generate both practical and theoretical implications by answering the following questions: (1) how has the development of INA for job creation progressed since its establishment through the promulgation of law? and (2) how the Indonesian government can improve INA based on the lessons learned from SWF in Norway and Singapore. This study used a qualitative-interpretive approach with a comparative case study (Walsham, 1995; Yin, 2013) to analyse the relationship between SWF in Indonesia, Norway, and Singapore. Furthermore, Grounded Theory was used as a lens to guide the data analysis. The primary benefit was the realisation that textual material may be studied in various ways (Charmaz, n.d., 2012; Wolfswinkel et al., 2013). The essential ideas, categories, groups, categories, features, and insights gained from the Grounded Theory analytical technique are inextricably tied to the variables evaluated by empirical and archival studies chosen for the review (Wolfswinkel et al., 2013). The study followed a five-stage Grounded Theory approach by Wolfswinkel to be used iteratively. The first was to define the criteria for inclusion. Second, a search was carried out for the keywords “Sovereign Wealth Fund”, “SWF Indonesia”, “SWF Norway”, “SWF Singapore”, “Temasek”, “INA governance”, and “Government Pension Fund” from a transcript of the interview as well as literature reviews. Third, the sample from all the search results was reviewed, and data were analysed using open, axial, and selective coding (Wolfswinkel et al., 2013). Open coding is an analytical procedure that generates higher-abstraction level type categories from collections of concepts/variables (Wolfswinkel et al., 2013). Axial coding is expanding categories and connecting to possible sub-categories (Wolfswinkel et al., 2013). The categories were combined and enhanced through selective coding (Wolfswinkel et al., 2013). The origin of categories and sub-categories in textual material, already-known categorisation systems, or thoughts relies on the purpose of the review and the relationship to the results of an area (Wolfswinkel et al., 2013). Without a doubt, connecting categories may necessitate a combination of inductive and deductive reasoning. Consequently, the individual codes serve as both inspiration and verification.

Grounded theory compels reviewers to focus on the explored concepts to recapture a narrative in which theoretical advancement is crucial. The essential ideas, categories, groups, features, and insights gained from the Grounded Theory analytical technique are inextricably connected to the variables evaluated by empirical and archival studies chosen for the review (Wolfswinkel et al., 2013). Given that these factors were related and critically reviewed in the process, not all the original variables may recur how the region was expected to advance.

Among the outcomes of the coding process is *context, including classification and objectives, nature and source of funds, management, implementation, funding policy, and regulatory framework*. Norway and Singapore have outstanding records in the management of SWF. Therefore, these results may serve as valuable benchmarks for the Indonesian government in determining optimal strategies for managing Indonesia's SWF. Subsequently, applicable and relevant laws and regulations were examined to identify the characteristics of the regulatory framework surrounding Indonesia's SWF further due to the problematic formal legal basis. The study used secondary data from available resources, including recent journals and proceedings on SWF, Government Pension Global Fund Annual Report 2021-2022, Indonesia Investment Authority Annual Report 2021, Temasek, and GIC Annual Report 2021. Other supplementary online documents, such as the official websites of SWF in Indonesia, Norway, and Singapore, as well as reputable online news outlets, were also used.

Field studies were conducted by collecting firsthand information from the relevant subject (Yin, 2013) to answer the questions. In this case, an interview was carried out with INA's board of directors and its legal advisor through the Zoom video platform in October 2022. This interview aimed to examine the history of the establishment and development of INA. Afterwards, a model for INA's development was proposed as a theoretical contribution. The primary data collected accurately represented INA's future and practical solutions for the Indonesian government. An interpretive-qualitative approach with a comparative case study was adopted, using a hermeneutic circle to understand a complex whole from preconceptions about the meanings and an understanding of the parts by reference to the whole context (Klein et al., 1999; Soren, 2021). Data from the interview was analysed and organised using NVIVO, a qualitative data analysis software. Additionally, a qualitative case study was the preferred strategy to answer 'how' and 'why' questions, consistent with the questions posed in this study (Yin, 2013).

II. SWF Landscape in Indonesia

The Indonesian government officially established INA in February 2021 by enacting the Law on Job Creation and the derivative regulation. This establishment used Government Regulation Number 75 of 2020 concerning INA (Government Regulation on INA), aimed at improving and optimising the long-term investment value to support sustainable development (Article 165 paragraph (2) of Law on Job Creation. Article 5 of Government Regulation on INA). INA was mandated with two main objectives, namely (1) to consistently and sustainably support structural economic growth in Indonesia and

(2) to support the development of wealth and prosperity for future generations (INA Annual Report, 2021 pg. 3). Accordingly, INA was categorised into two types of SWF, namely "saving funds for future generations" and "development funds". This condition is because INA is a commercial entity with a duty to invest the Central Government's funds[1] in very good risk-adjustment returns. The returns/proceeds will be allocated for future generations, and at the same time, INA helps the country develop infrastructure projects by facilitating prospective investors through direct or indirect investment. Furthermore, INA established cooperation with third parties and formed a special entity as an Indonesian legal or foreign legal entity (Article 158 paragraph (3) of Law on Job Creation).

Table 1. Identification of INA's Facilitating Conditions

Facilitating condition	Description
1. Independence	INA has the flexibility and full authority in making investments mandated directly by the Law on Job Creation and Government Regulation on INA
2. Ease of Doing Business	a. Law on Job Creation b. OSS is a single portal for ease of obtaining business permits
3. Good Governance	a. INA has a two-tier board structure b. Application of the three lines of defence model c. A Risk Appetite Statement (RAS) and a Risk Register d. Internal regulations e. Whistle Blowing Systems for INA's employees integrated into its website.
4. Legal certainty	The law regulates the formal legal basis of INA on Job Creation, Government Regulation on INA, and other relevant laws and regulations.

Source: Indonesian Law Number 11 of 2020 concerning Job Creation.

In this study, we have identified four facilitating conditions that enable INA to thrive in its early stage of operation, as shown in Table 1. The first is independence; we would argue that independence can be like a double-edged sword, enabling as a facilitating condition or a challenge, as explained in the next section. INA's independence gives it full authority to decide on its investment. In bureaucratic management, INA is directly responsible to the president and has special authority to maintain independence and professionalism in managing assets or attracting foreign direct investment ("FDI"). Accordingly, INA has flexibility in making investments, and concerning its authority, INA has comprehensive authority in carrying out its mandate stipulated in the Law on Job Creation. INA has full authority in making investment decisions to achieve optimal risk-adjusted returns. As a result, INA has the adaptability and capacity to adopt global best practices in investment.

Second, in connection with ease of doing business as a facilitating condition, to attract FDI as well as to simplify the process of getting company licenses, the Ministry of Investment/Head of Investment Agency has introduced Online Single Submission ("OSS"), which serves as the Law on Job Creation's implementation. Additionally, the Law on Job Creation, the same legal basis for INA establishment, streamlines 79 laws and makes company licensing easier for everyone in the business world, including big investors and micro and small firms.

Third, INA has a strong governance structure, employing 26 skilled employees and implementing internal policy-setting. It has a two-tier board structure with a Supervisory Board and a Board of Directors, each with its regulations. The Supervisory Board oversees the implementation of INA. At the same time, the Board of Directors manages operations (INA, 2021) to manage reporting or disclosing of suspected violations allegedly committed by members of the Supervisory Board, Board of Directors, or employees. INA has implemented a whistleblower system known as the INA Integrity Line. Furthermore, INA has developed mechanisms for each stage of the overall investment process (end-to-end process) as a work reference and has made them clear to prospective investors. The three lines of the defence model, a Risk Appetite Statement ("RAS"), a Risk Register, and optimising the role of the Risk Management Committee in overseeing risk management are all necessary components of a structured and systematic approach to maintaining a risk-aware culture in INA.

Lastly, on INA's legal certainty, INA has had a solid legal basis since its inception, despite the Constitutional Court decision declaring the Law on Job Creation 'conditionally unconstitutional' in November 2021[2*]. The Indonesian government guarantees foreign investment security and assures that the current status quo does not mean its enforceability will stop (BRIN, 2021). INA will continue to facilitate investment development in Indonesia and ensure that amendments to the Law on Job Creation will not affect existing projects (Neraca, 2022; BRIN, 2021).

INA's position is also secured by a derivative regulation under the Law on Job Creation, the Government Regulation on INA. This regulation was promulgated before the Constitutional Court decision, ensuring its enforceability despite the unconstitutional status of the Law on Job Creation. Moreover, INA's investment commitment to infrastructure projects in Indonesia is expected to sustain and shape the country's future development (e.g., the toll road and port construction projects will take up to fifty and thirty years, respectively). Therefore, the possibility of the Law on Job Creation being declared unconstitutional will not end INA. However, we have also identified INA's legality due to the 'conditionally unconstitutional' status of its legal framework as one of the challenges in INA's operation from another point of view, which will be elaborated in the next section.

Table 2. Identification of INA's Challenges

Challenges	Description
1. A newly established instit tion.	INA is developing; it must establish a good reputation and credibility to gain prospective investors' trust in attracting investment to Indonesia.
2. Capital	INA's initial capital injection by the government to carry out its function as Indonesia's SWF is still relatively small compared to the other countries' SWF (e.g., Norway and Singapore).
3. Complex bureaucracy	An overwhelming review of contracts and documents may negatively impact investor willingness, while statutory requirements may postpone investment deal conclusion.
4. Status quo of Law on Job Creation	The investors might withhold their investments and prefer to wait and see once the legal certainty of the Law on Job Creation is formally guaranteed.

Source: Processed by Authors.

This section discusses the four identified challenges of INA as Indonesia's SWF, as listed in Table 2 above. First, as a newly established institution created by the Indonesian government in 2021, INA faces challenges in its learning phase. INA has shown its huge potential since its inception by engaging with prestigious foreign investors and becoming a full member of IFSWF. However, its young age also presents challenges, as it is still improving its reputation and credibility to create an investor-friendly investment landscape. INA is a developing institution working to establish a strong foundation for its future. The results of INA's early performance may not be reaped soon, but it is expected to achieve its purposes within the next twenty to thirty years.

Secondly, INA faces challenges in its capital allocation as a SWF. The Indonesian government initially provided IDR 15 trillion in initial capital, with the remaining IDR 75 trillion set to be fulfilled gradually until the end of 2021 through equity participation and other sources. The government's capital support extends to when INA suffers a 50% loss, allowing additional capital injection. It is worth noting that the state's assets or State-Owned Enterprises ("SOE") assets which the government invests in INA shall become the property and responsibility of INA. Therefore, any losses INA suffer shall be considered the institution's and will not be borne by the state. INA's profits are used for mandatory reserve, retained earnings, and profit shares for the government. In 2021, INA received IDR 60 trillion from budgetary transfers of the state fund and government-owned shares in two Indonesian banks (INA, 2021; Kim, 2022; VOI, 2022). Despite this, INA believes its current capital/assets are insufficient due to its young age and focus on increasing wealth by attracting foreign investors. To ensure a promising future, INA needs independence and flexibility in asset management and investment decisions to maintain growth.

Thirdly, INA faces challenges in negotiating deals with potential investors due to Indonesia's complex bureaucracy. At the micro level, INA must bridge communication between investors and investees and with other relevant ministries and institutions to obtain support and advice for transactions. INA disclosed that from the dealing/negotiation process to the transaction closing, an overwhelming number of contracts and other documents need to be scrutinised to meet the statutory requirements in Indonesia. During this process, it is important to remember that these prospective investors also have the option to place their money somewhere else. Therefore, the already challenging process becomes even more challenging when faced with the complex bureaucracy in Indonesia. The Indonesian Ministry of Investment's support as a policymaker is undoubtedly essential at the macro level in formulating investment-related policies. The interconnected relationship between INA and the Ministry of Investment directly influences the ease of doing business for potential investors, for whom INA settles each investment project on a deal-by-deal basis at the micro level.

Lastly, the legal framework of INA is crucial for prospective investors, as it influences business ease and legal certainty. The current Law on Job Creation, which created INA, is under judicial review and may be nullified. Indeed, the previous section concluded that INA's existence would not be affected despite the Law on Job Creation status quo. Notwithstanding the above, however, the current state of the Law on Job Creation might influence prospective foreign investors to withhold their investment and wait for legal certainty upon the enforceability of the Law on Job Creation. INA and the Indonesian Government have complementary roles in ensuring investment certainty in Indonesia. The government should revise the Law on Job Creation and support the ease of investing with adequate policies. At the same time, INA should accommodate a win-win solution for both investees and investors on a deal-by-deal basis.

Table 3. INA's main features

Indonesia Investment Authority (INA)	
Classification and objectives	a. development fund b. saving funds for future generations
Source of fund	a. capital injection by the government b. state's equity participation (in the form of cash, state property, state receivables from SOE or Limited Liability Companies, and/or state-owned shares in SOE or Limited Liability Companies c. investment flows (foreign and domestic)
Management	a. established in 2021 b. two-tier board structure consisting of Supervisory Board and Board of Directors
Implementation (Investment strategy)	a. foreign and domestic investment, b. loans, equity participation, trust funds,

Indonesia Investment Authority (INA)	
	c. direct or indirect cooperation d. facilitating negotiations for better risk-adjusted returns are essential for successful ventures.
Funding Policy (Government Shares)	a. Profit shall be utilised for mandatory reserve, retained earnings, and profit shares for the Government b. 10% of net income is allocated for mandatory reserve until it fulfils 50% of INA's capital to which INA may utilise for investment activities c. When INA's accumulated retained earnings exceed 50% of its capital, a maximum 30% from such retained earnings is allocated for Government shares
Regulatory framework	a. Law Number 11 of 2020 on Job Creation b. Government Regulation Number 75 of 2020 concerning INA

Source: Processed by Authors.

To highlight the above elaboration outlining INA's facilitating conditions and challenges, Table 3 below presents a summary of INA's main features based on several categories:

III. Lessons Learned from SWFs in Norway and Singapore

A. Singapore's SWF

Singapore's two SWFs have contributed to economic growth since the late 1900s. Temasek was the first SWF established by Singapore in 1974 with an initial asset base of approximately S$354 million acquired from the Singapore Ministry of Finance ("MOF"), which turned into S$403 billion four decades later (Temasek Review, 2022). Seven years after the establishment of Temasek, the government formed another institution with the main duty of managing Singapore's financial assets, namely GIC, holding $360 billion in assets under management (Caproasia, 2022). Through their different roles–which will be further elaborated in this section, both entities are greatly influential in preserving and enhancing the country's purchasing power.

Singapore's SWFs were initially linked to the People's Action Party ("PAP"), with the family controlling major private companies and occupying crucial governmental roles. However, limitations on political influence were introduced throughout their existence. Temasek and GIC were established under the Singapore Companies Act to maximise the long-term value of the nation's assets (GIC Annual Report 2021:22, n.d.; Temasek Review 2022 Highlights, n.d.; Ministry of Finance, 2022). Temasek was created as an exempt private limited company, holding the government's portfolio of government-linked companies

(GLCs) with the Ministry of Finance as the sole shareholder. To prevent political influence, PAP construed strategies, including restricting the MOF's rights as shareholders, restricting the board's decision-making process, and promoting good corporate governance in its GLCs portfolio. Temasek voluntarily binds itself to strict audits and disclosure requirements to expose poor corporate governance. Despite being an exempt private company, Temasek has published a Group Financial Summary and portfolio of performance since 2004 in its yearly Temasek Review.

Temasek's investment activities focus on investing in companies that engage its business activities in the following four structural trends: digitisation, sustainable living, future of consumption, and longer lifespans. Before making an investment decision, Temasek will conduct early assessments, consider expected returns, environmental, social, and governance factors, and consider investment risk from various perspectives)–whereby these aspects will determine the risk-adjusted cost of capital for subsequently comparing the relative attractiveness (among other investment opportunities). Calculations based on risk-adjusted capital are essential to determine the final percentage of the investment return.

Unlike Temasek, GIC acts as a fund manager for the government of Singapore and the Monetary Authority of Singapore ("MAS"), investing in budgetary and non-budgetary surplus foreign reserves. The main goal is to aggressively invest Singapore's SWF in higher-return asset classes for a longer investment horizon (Chen, 2022). GIC invests in companies with strong sustainability practices, supports the transition to a net-zero economy, and engages with portfolio companies on climate transition plans and green technologies. Furthermore, they invest in startups with capital-injecting technology, create dialogues, and fund investments for sustainable climate-resilient business models. They employ 'Three Lines of Defense' for transparency and accountability in their operations.

Undeniably, the strong investment performance portrayed by Temasek and GIC must be supported by a solid corporate governance to ensure legal compliance. Temasek and GIC have an identical company structure consisting of a Board of Directors and Management Team as the front-runners and several supplementary Committees (e.g., Audit Committee, Investment Strategies Committee, Risk and Sustainability Committee, etc.). Both entities are designated as Fifth Schedule companies under the Singapore Constitution. Therefore, although they are quite independent in the operations of their day-to-day management, they are bound to some constitutional limitations. The Singapore Constitution authorises the president to obtain certain company information to enable the president to safeguard the country's reserves, hence in making corporate actions such as pursuing a transaction which involves a withdrawal of the company's past reserves or terminating, renewing, or appointing new members of the Board of Directors, both Temasek and GIC shall obtain an approval from the President of Singapore (Ling, 2019). Moreover, their financial statements are also subject to strict audit by the Government of Singapore's auditor general (appointed by the president), who will report the audit result to the President and Parliament (GIC Annual Report 2020/21; Temasek Review 2022). To summarise the above elaboration, Table 4 below highlights the differences between Temasek and GIC:

Table 4: Temasek and GIC in comparison.

	Temasek	GIC
Classification and objectives	a. saving funds for future generations b. deliver sustainable returns over the long term	a. achieve good long-term returns for the government b. securing the country's financial future
Nature and source of fund	a. divestments, investment dividends and cash contributions from its portfolio companies, debt instruments, Singapore MOF (Temasek's funds mainly come from its role as shareholder and investor) b. Temasek owns the assets it manages	a. the Singapore Government's financial assets (other than the deposits in the MAS and stake in Temasek) or foreign reserves b. GIC acts as a financial manager (it does not own the assets under its management)
Management	a. established in 1974 b. owned by the Singapore Government and accountable to the MOF c. Temasek manages its assets (it established a new asset manager such as Seviora Holdings Pte Ltd. in 2020)	a. established in 1981 b. owned by the Singapore Government and accountable to the MOF c. GIC manages the assets owned by the Singapore Government and MAS
Implementation (Investment strategy)	a. investment portfolio allocation: 36% Singapore companies; 18% private equity and credit funds; 20% asset management businesses; 26% other private companies (including early stages) b. geographical focus: Singapore; China; Asia; United States; Europe, Middle East & Africa; Australia & New Zealand	a. investment portfolio allocation: 14% developed market equities; 16% market equities; 37% nominal bond and cash; 6% inflation-linked bonds; 10% real estate; 17% private equity b. geographical focus: United States; United Kingdom, Latin America; Middle East, Africa, and the rest of Europe; Eurozone; Japan; Asia; Global

	Temasek	GIC
	c. bottom-up intrinsic value analysis, with expected returns evaluated against a risk-adjusted cost of capital that is derived using the capital asset pricing model d. risk-adjusted cost of capital to compare the relative attractiveness among investment opportunities	c. GIC's investment process begins with the Policy Portfolio, which covers the key asset classes that drive the GIC Portfolio's long-term returns; and added by the Active Portfolio, which aims at adding value to the Policy Portfolio through skill-based, active strategies, while preserving the exposure to systematic market risks.
Funding Policy (Government Shares Policy)	a. dividends to its sole shareholder: the Singapore MOF b. Government can use up to 50% of Temasek's expected long-term real returns to supplement the government's annual budget	- Government can use up to 50% of the expected long-term real returns on Government reserves managed by GIC
Regulatory framework	a. Constitution of Singapore b. Singapore Company Act	a. Constitution of Singapore b. Singapore Company Act

Source: Temasek Review, 2022; GIC Annual Report 2021/22; Reuters, 2020; Ministry of Finance, 2022

B. Norway's SWF

The two SWFs in Norway, the GPFG and the GPFN, have contributed to Norway's economic growth since its inception in 1967 (the GPFN) and 1990 (the GPFG). By the middle of 2022, the market value of the GPFN was 315 billion kroner, while the GPFG, by contrast, was worth 11,657 billion kroner (Ministry of Finance, 2022a, 2022b). It is important to distinguish the Government Pension Fund Norway (GPFN) from the Government Pension Fund Global (GPFG), more commonly called the oil fund. The much smaller SWF, GPFN, is a national insurance fund. The GPFN is handled independently from the GPFG by *Folketrygfondet* (the National Insurance Scheme Fund), and its investments are restricted to Scandinavian and domestic businesses, making it a significant shareholder in many major Norwegian enterprises, mostly through the Oslo Stock Exchange (Moses, 2021). As foreminded, the Global Pension Fund in Norway comprises two separate forms: The GPFG and the GPFN.

Table 5: **GPFG and GPFN in comparison.**

	The Government Pension Fund Global (GPFG)	The Government Pension Fund Norway (GPFN)
Classification and objectives	a. development fund b. saving funds for future generations. c. source of public expenditure funding d. to facilitate government saving	a. reserve investment corporation b. to support long-term value creation in companies and markets, the GPFN invested c. to achieve a better return than the market in general. d. Prioritise discussion on the impact on the environment, climate risk and anti-corruption with portfolio companies
Source of fund	all government petroleum revenues (oil fund)	surpluses in the national insurance scheme between its introduction in 1967 and the late 1970s
Management	a. established in 1990 b. general management: Ministry of Finance c. operational: Norges Bank d. asset management: Norges Bank Investment Management	a. established in 1967 as National Insurance Scheme Fund and changed its name to the GPFN in 2006 b. management mandate: Ministry of Finance c. operational manager: *Folketrygdfondet* (National Insurance Scheme Fund, subordinate agency of Ministry of Finance)
Implementation (Investment strategy)	a. abroad investment b. 70% equity 30%fixed income c. three main strategies: fund allocation, security selection and asset management. d. capital allocation between equity and fixed income e. transparency and ethical asset management	a. regional investment is limited to Nordic countries (Norway, Denmark, Finland, Sweden). 85% in Norway and 15% in other Nordic countries b. 60% equity, 40% fixed income c. transparency and ethical asset management
Funding Policy (Government Shares)	a. government can draw the funds to boost the annual budget b. capped at 4% of the fund's value	annual return of the asset is added to the fund capital

	The Government Pension Fund Global (GPFG)	The Government Pension Fund Norway (GPFN)
Regulatory framework	a. Government Pension Fund Act b. Central Bank Act c. Management Mandate for the Government Pension Fund Global	a. National Insurance Act 1967 b. Government Pension Fund Act c. Act on *Folketrygdfondet* (Act of June 29 2007 No 44) d. Mandate of December 21 2010 No. 1790 for the Management of the GPFN.

Source: Legislative Council Secretariat, 2014; NMIB, 2022; Norges Bank Investment Management, 2021, 2022a, 2022b; St, 2021; Folketrygdfondet, 2021

a. The GPFG

The Parliament created the foundation for the Government Pension Fund and the management of fund assets through the Government Pension Fund Act and guidelines with supplemental provisions from the Ministry of Finance and Norges Bank. The GPFG's operational and management, in particular, has been based on the Government Pension Fund Act, Central Bank Act, Management mandate for the Government Pension Fund Global, and Guidelines for observation and exclusion from the Government Pension Fund Global. The main objective of the GPFG, according to its most recent annual report, is to *"safeguard and build financial wealth for future generations"*(Norges Bank Investment Management, 2021).

The GPFG is seen as one the largest SWFs in the world and will now own shares from 9338 companies by the end of 2021 worldwide spanned from 70 countries investing in equities, fixed income, new and renewable energy, and real estate infrastructures (Norges Bank Investment Management, 2022a) Other investments from the fund include from lending to companies and countries as well as owning buildings in cities around the world to generate rental income (Norges Bank Investment Management, 2022a) Table 6 shows the fund's largest equity holdings per June 2022 in millions of kroner.

Table 6. Profile of GPFG's equity holdings worldwide.

Company	Country	Holding
Apple Inc.	US	204,480
Microsoft Corp	US	199,374
Alphabet Inc	US	128,392
Amazon.Com Inc	US	95,165
Nestlé SA	Switzerland	84.613
Roche Holding AG	Switzerland	62,086
Taiwan Semiconductor Manufacturing Co Ltd	Taiwan	60,493
Shell PLC	UK	55,092

Company	Country	Holding
Tesla Inc	US	53,550
Meta Platforms Inc	US	53,101
AstraZeneca PLC	UK	46,080
Novo Nordisk A/S	Denmark	44,655
UnitedHealth Group Inc	US	44,511
Novartis AG	Switzerland	43,905
ASML Holding NV	Netherlands	43,089
Berkshire Hathaway Inc	US	41,865
Johnson & Johnson	US	40,653
Exxon Mobil Corp	US	37,673
Samsung Electronics Co Ltd	South Korea	37,658
NVIDIA Corp	US	35,921

Source: Government Pension Fund Global, Half Year Report 2022

Concerning its governance, the Norwegian Parliament, the Ministry of Finance, the executive board of Norges Bank, and Norges Bank Investment Management (NBIM) manage the GPFG, each having distinct duties and responsibilities. The formal framework is established through The Government Pension Fund Act, while the Ministry of Finance issues guidelines for its management. Norges Bank, Norway's central bank, manages the GPFG on behalf of the Ministry of Finance. The Norges Bank Executive Board sets policies and delegates mandates to the executives of Norges Bank Investment Management, while the NBIM is responsible for operational management. The GPFG's governance structure ensures transparency, endorsement of key investment decisions, and reliable control and oversight mechanisms at every management level.

Figure 1 describes the GPFG's organisation.

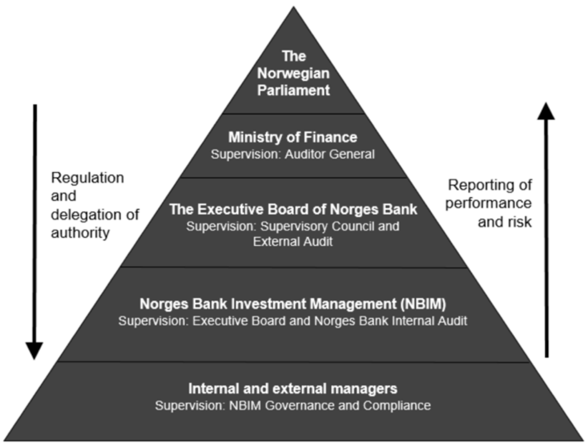

Figure 1: The GPFG Governance Framework

Source: Ministry of Finance, 2021

According to the Government Pension Fund Act, Section 4 (1), the Government Pension Fund Global (GPFG) 's income is primarily derived from petroleum revenues, transferred from the central government budget, and the return on investments. The GPFG's investment strategy is based on its aim, asset manager's characteristics, and market assumptions. The investing approach has evolved based on careful evaluations, expert advice, and real-world experience, and the Parliament has approved important decisions on fund management (Ministry of Finance, 2021; St, 2021). The fund's 2021 equity share is 70% fixed-income securities, with diversified investments, board diversification, risk premium harvesting, rebalancing, moderate deviations from the benchmark, responsible management, cost efficiency, and transparency. The GPFG's risk-bearing capacity is strong, but the level of risk taken depends on the owners' risk appetite and political authorities' approval. The fund's owners, represented by the Norwegian Parliament, have made clear what level of risk is acceptable by endorsing the equity share (Legislative Council Secretariat, 2014; Machado E Silva & Medeiros Costa, 2019; Ministry of Finance, 2021; NMIB, 2022; Papaioannou & Rentsendorj, 2015; St, 2021).

b. The GPFN

Surpluses in the national insurance plan between its commencement in 1967 and the late 1970s are the main source of the capital basis of the Government Pension Fund Norway (GPFN). The regulatory frameworks of the GPFN are laid down in the Government Pension Fund Act. In the Government Pension Fund Act, the Norwegian Parliament assigned management of the GPFN to the Ministry of Finance. Furthermore, *Folketrygdfondet,* the subordinate agency of the Ministry of Finance, oversees and manages the GPFN fund's day-to-day operations. In a separate mandate, the Ministry has established guidelines for *Folketrygdfondet*'s administration of the GPFN. The mandate outlines the GPFN's overall investment strategy and specifies risk management, reporting, and responsible management guidelines. The mandate is broad and based on principles, and it assumes that *Folketrygdfondet,* as the operational manager, will develop internal regulatory frameworks on technical matters of the GPFN (Folketrygdfondet, 2021) Figure 2 shows the governance framework of the GPFN in general and Figure 3 for *Folketrygdfondet* as operational manager of the GPFN.

Figure 2: Governance framework of the GPFN

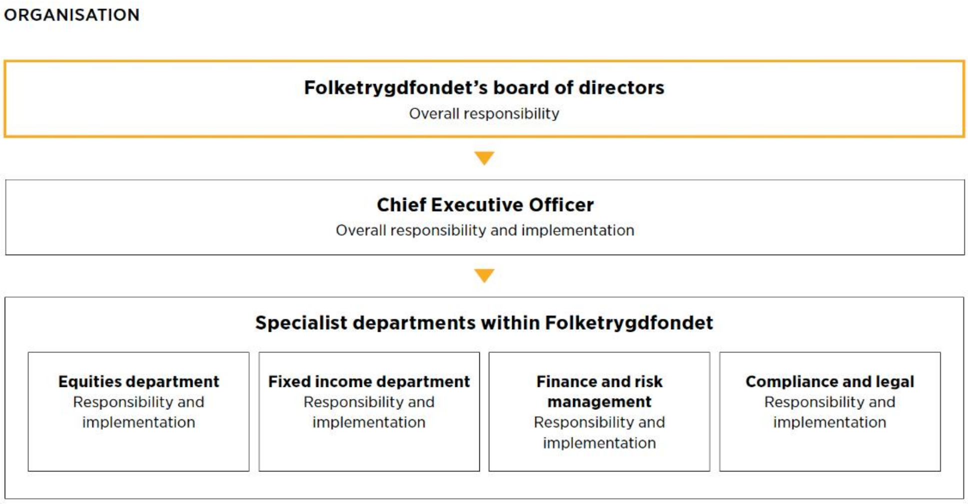

Figure 3: *Folketrygdfondet* organization
Source: Folketrygdfondet, 2021

The National Insurance Act of 1967 created the GPFN under the National Insurance Scheme Fund. On January 1, 2006, the name and the former Government Petroleum Fund to the GPFN were modified. The capital of the GPFN, a "closed fund," is placed in Folketrygdfondet and is handled according to the objectives established by the Ministry of Finance (Legislative Council Secretariat, 2014; St, 2021). In contrast to the GPFG, the annual return on the assets of the GPFN is continuously added to the fund capital in lieu of being returned to the Treasury. Therefore, there are neither capital transfers between the GPFG and the GPFN nor between the fiscal budget and the GPFN (Legislative Council Secretariat, 2014; Ministry of Finance, 2022; St, 2021). In 2021, the GPFN's equity share allocation was 60% equity and 40% fixed-income securities, with other diversified investments.

Regarding its investment strategy, the GPFN employs various tools and adjusts their efforts for investing strategy based on its many financial instruments and portfolios (*Folketrygdfondet*, 2021). This condition is essential to ensuring that the GPFN's efforts at ethical investing serve the larger goal of generating the maximum returns over time. *Folketrygdfonde*t uses an active management approach in analysing potential equities portfolios, including a qualitative assessment of deviation from the benchmark index and a quantitative characteristic assessment. A similar strategy is adapted to assess potential company portfolios using qualitative and valuation assessments (*Folketrygdfondet*, 2021). The GPFN has contributed to a well-functioning market by diversifying portfolios, conducting robust credit analysis, investing in less liquid securities, and reducing market fluctuations through countercyclical investment.

IV. Lesson Learned for Indonesia

Having reviewed the SWF landscape in Singapore, Norway, as well as Indonesia, we found that there is a prominent feature from SWFs in Singapore and Norway which may become a lesson learned for INA, namely the applicability of good corporate governance, especially concerning (1) funding policy, (2) the supervisory institutions and (3) transparency and accountability of the investment activities.

A. Funding Policy

INA's funding policy is exceptional due to its independence and autonomy, resulting in extra capital infusions and asset status. The Indonesian government may provide additional capital injections when INA's capital is reduced. Furthermore, the policy separates INA's assets from the state, ensuring losses are not considered state losses. Contrarily, in the case of retained earnings, when INA's profit accumulation exceeds 50% of its total capital, the government shall allocate a maximum of 30% of such profits. INA's Supervisory Board determines the decision on profit allocation based on a Board of Directors' proposal. Indeed, INA must be given a certain level of freedom to manage its business operations. Still, it should also be accompanied by appropriate limitations to prevent abuse of power, especially concerning utilising the state budget for investment. This fact aligns with a study that argues that corporate governance significantly improved business performance. Furthermore, this suggests that by enhancing board independence and separating the dual nature of the chair (other supervisory institution outside INA), one may enhance operational management, which in turn can enhance financial outcomes and, hence, good institutional performance (Naz et al., 2022).

Concerning funding policy, in Norway, for instance, the government uses the General Public Fund (GPFG) to increase its annual budget, with a maximum annual withdrawal of 4% of the fund's value (Legislative Council Secretariat, 2014; Norges

Bank Investment Management, 2021) This withdrawal is based on the projected annual positive return on the fund's investments, ensuring a balanced budget overall. In contrast, the GPFN's annual return on assets is continuously added to fund capital without capital transfers between the GPFG and the GPFN. In the case of Singapore's Temasek and GIC, the government can use up to 50% of expected long-term real returns to supplement the annual budget for long-term commitments, such as the Pioneer Generation Package of 2014. The withdrawal is added to the state budget through Net Investment Returns Contribution ("NIRC"). The NIRC framework is subject to strict procedures and requirements, including spending real rates of return to protect reserves' real value, thorough processes for determining expected long-term returns, the MOF reviewing returns rate calculations, consultation with the Council of Presidential Advisors, and confirming the actual amount of NIR incorporated by the government to the state budget (SWFI, 2022; Singapore Ministry of Finance, 2022).

Looking at the funding policy implemented by Norway and Singapore, it is apparent that the government's withdrawal concerning the investment returns of each respective country's SWFs is accompanied by strict statutory and administrative requirements. Moreover, the government allocation procedures are explicitly regulated and made publicly available. Given INA's exceptional funding policy, we deemed that it is necessary to give certain statutory limitations, which can be manifested through specifically regulating the detailed requirements and procedures of the 30% allocation of INA's total profit to the government–considering that the current Government Regulation on INA does not list the specific requirements and procedures for such Government allocation. In addition, INA's distribution of profit, which includes the government's allocation, is subject to INA's internal regulation. Correspondingly, we argue that a clear funding policy accompanied by sufficient supervision is necessary to ensure compliance, transparency, and accountability, especially upon INA's investment returns.

B. Supervisory Institutions

Under the Singapore Company Act and the Constitution of Singapore, the legal certainty of Temasek and GIC is guaranteed, which is also reflected by the governance model these institutions apply. As Fifth Schedule companies, we argue that in conducting their businesses, the Singapore Government gives these two entities enough leniency to manage their affairs, but appropriate limitations accompany them to ensure the stability of their business management. It is apparent that both Temasek and GIC have the discretion and independence to determine their investment strategies and decisions and that the government will not be involved in such matters. Nevertheless, in case of company decisions which might influence the stability of not only these institutions themselves but also the country's–such as making a withdrawal of the country's past reserves and terminating or appointing new Board of Director members, Temasek and GIC are subject to the approval from the President of Singapore. A similar case of SWFs governance is also apparent in Norway with the GPFG and the GPFN. The GPFG, for instance, has a clear division on each role with the people of Norway at the highest hierarchy of its governance represented by the Norwegian Parliament (see Figures 1 & 2). Top-down regulation ensures authority delegation and reporting mechanisms for each institution, ensuring a "check and balances" between mandated institutions. Transparency is crucial for Norway's SWF management, with the Ministry of Finance detailing the fund's management semi-yearly in the National Budget and annual reports to Parliament.

Based on the previous, we opined that a balance of enough room for independence with appropriate statutory limitations is significant in guaranteeing the sound implementation of SWFs in Singapore and Norway. To this end, such a governance model is exemplary for INA as a newly established institution–considering that currently, INA has the responsibility to report directly to the president through its Supervisory Board without going through checks and balances with institutions other than INA. The elements from other institutions, such as the Ministry of Finance and Ministry of State-Owned Enterprises, represented each by its minister, are within the internal organisation of INA as part of the Supervisory Board. Hence, INA should incorporate other supervisory bodies outside INA to ensure balance with INA's broad authority and independence, which will be further elaborated below.

C. Transparency and Accountability

In conformity with the importance of good corporate governance, which is detrimental to the successful reputation of SWFs, we opined that transparency and accountability principles are crucial for the success of SWFs, as demonstrated by Temasek, GIC, GPFG, and GPFN. These companies adhere to Santiago Principles in their business activities, implementing transparency and accountability through company policy portfolios, management board appointments, investment objectives, risk parameters, and guidelines. Annual reports published by Temasek, GIC, the GPFG and the GPFN also outline their company portfolio and investment allocation, ensuring public transparency. Furthermore, the board is also accountable to the government concerning the effective management of the reserves according to the government's investment mandate.

Meanwhile, INA's annual report, particularly in the finance department, lists its investment allocation in various forms such as demand deposits, time deposits, bonds, and *inbreng* shares without specifying the details or return of the investment. In INA's financial report, it is also stated that the top five realisations of INA's investment based on the domestic and foreign investment sectors from the reports from the Ministry of Investment/BKPM have indeed been able to exceed the set targets (INA, 2021) However, the report does not provide detailed descriptions of investment projects or investment allocation details. Additionally, the financial review section writes down investments in equity instruments as 'other financial assets' without explaining the details. This report needs further elaboration to ensure transparency and accountability. Moreover, INA registered a liability of IDR 167.46 billion in 2021, the majority representing the provision and accrual of expert fees (INA, 2021). The majority of INA's investment-related expenses are for investment advising services.

In the case of INA, indeed, it has also placed its commitment to promoting good investment management and good governance practices under the Santiago Principles–whereby INA's obligation to apply transparency and accountability principles in managing its assets has been manifested through the Government Regulation on INA, which regulates that further implementation of these principles is to be regulated in a separate Board of Director Regulation ("BODR"). The BODR regulates asset management, risk management, compliance, human resources, finance, legal affairs, information systems, audits, procurement of goods and services, work plan, and remuneration for the Supervisory Board and the Board of Directors (Article 65 paragraph (3) of Government Regulation on INA). However, INA is not statutorily obliged to specify its investment strategy, allocation, and return within the BODR. Moreover, the audit process in INA is conducted by a public accounting firm appointed by the Board of Directors, subject to approval from the Supervisory Board. This appointment raises concerns about the impartiality and independence of the firm conducting the assessment and reporting. As a separate legal entity, INA should be audited by an independent auditor appointed by the government or another independent audit body, subject to stricter reporting requirements. Comprehensive and timely reporting ensures transparency and accountability in INA's day-to-day operations and harmonises with the macroeconomy regulatory framework (Al-Hassan, Papaioannou, Skancke & Sung, 2013). Such an independent audit mechanism has been implemented by Temasek and GIC, whereby, as Fifth Schedule companies, they are subject to an audit process conducted by an Auditor-General appointed by the President of Singapore–ensuring the fulfilment of transparency and accountability principles.

Based on those mentioned earlier, we propose the Audit Board of the Republic of Indonesia ("BPK") in the context of INA. BPK is an institution that neutrally and unbiasedly examines state financial accountability and management. The 1945 Indonesian Constitution (UUD 1945) Articles 23 E, 23 F, and 23 G mention its founding and structure. In addition, Law No. 15 of 2006 on the Audit Board of the Republic of Indonesia was passed to set forth the responsibilities and powers of BPK. Our suggestion echoed a previous study on INA, which suggested that BPK's participation in analysing INA's financial reports is justified given the volume of investment flows involved (Pink, 2020; Halim, 2021). In this case, we assert that if

INA only has an internal and external auditor chosen by the Board of Directors (current company governance), this will cause public concern regarding INA's accountability because the organisation is still relatively new and must continue to earn the public's trust. Figure 4 below shows our proposed model for INA's organisational framework to ensure transparency and accountability.

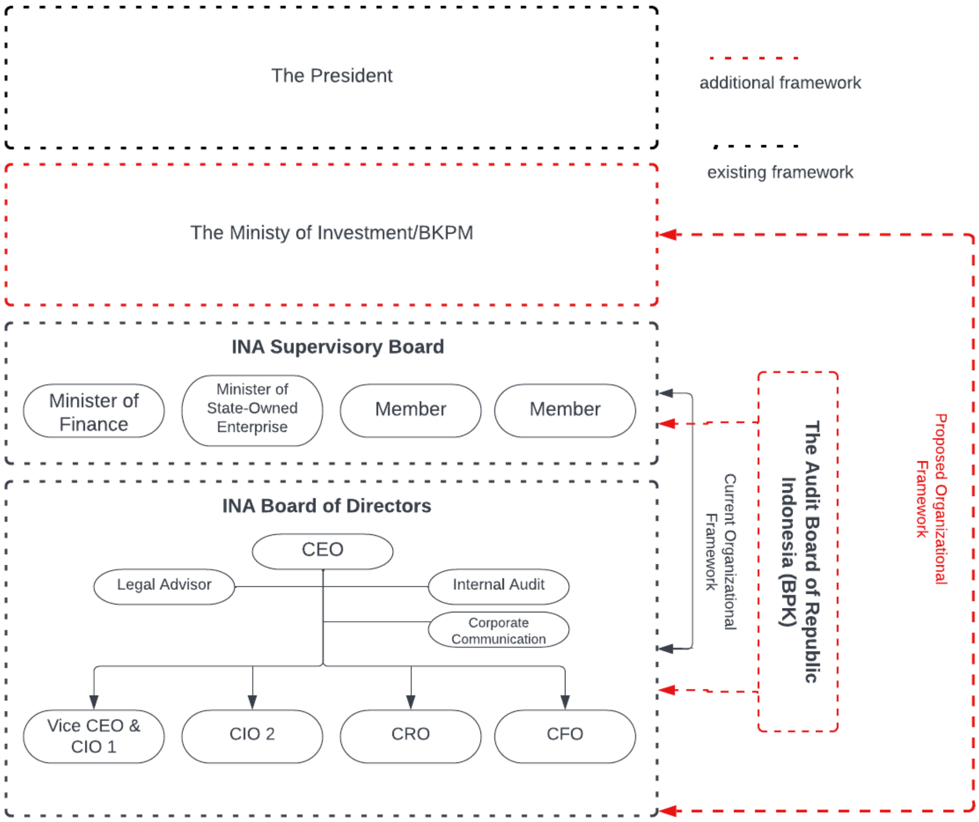

Figure 4: Proposed organisational framework.

To conclude, we contend that INA must implement good corporate governance to enhance transparency and accountability principles in its overall business management. Given that this recently founded SWF is still in the early stages of developing a reputation and meeting many future expectations, it is necessary to take these steps to win the general public's and potential investors' plausible trust.

V. Conclusion and Suggestion

In conclusion, this study found that the legal basis of INA, despite being conditionally declared unconstitutional in 2021, was further strengthened. This reinforcement developed from a derivative rule under the Government Regulation 74 of 2020 on Indonesia Investment Authority. Since the Government Regulation on INA was issued before the Constitutional Court's ruling, the validity was still in effect even when the Law on Job Creation was ruled unconstitutional. However, a different situation occurred when the government regulation was passed after the Constitutional Court's ruling, potentially rendering it unlawful. The Constitutional Court's ruling ordered the government to stop any broadly applicable policies from the Law on Job Creation. This study contended that the status was voidable when a derivative policy was implemented before the Constitutional Court's ruling. In other words, it could only be "cancelled" through a formal review requested from the State Administrative Court based on the ruling of the Constitutional Court rather than being declared null and void by law. Therefore, this study assumed that international investors putting interests through INA did not need concern because the legal structure was recognised as lawful and enforceable.

For practical implication, this study argued that the lessons learned from the operation and management of SWF in Norway and Singapore could be partially adopted by the Indonesian SWF initiative. This circumstance particularly pertained to good corporate governance from the perspective of funding policy, supervisory institution, transparency, and accountability. First, regarding funding policy, strict statutory and administrative requirements were recommended to accompany the procedure for the government's withdrawal allocation from INA's investment returns. In addition, INA's investment returns must be compliant, transparent, and accountable, necessitating the development of a defined funding policy. Second, regarding supervisory institutions, the organisation of INA and the relationship with other pertinent entities, specifically the Ministry of Finance and Investment/ BKPM, must also be clearly and explicitly defined. This study showed that a balance between sufficient leeway for independence and adequate regulatory constraints was essential to ensure the successful implementation of SWF in Indonesia. Other supervisory bodies needed to be included from outside the organisation with explicit delegation of authority. The regulation and transfer of responsibility from one institution to another must be clearly defined top-down, implying the presence of "checks and balances" among the entities entrusted with managing INA. Finally, based on transparency and accountability, INA could strengthen transparency and accountability to gain more trust from the public by including an independent body of auditors. The Audit Board of Indonesia (BPK) was suggested in this context. Based on the result of this study, an organisational structure was proposed for INA, incorporating the participation of BPK and explicitly defining the relationship with the Ministry of Investment/BKPM.

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